

LAFCO of Napa County

Local Agency Formation Commission

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FEBRUARY 26, 2004 AGENDA ITEM NO. 8a

February 17, 2004

TO: Local Agency Formation Commission

FROM: Keene Simonds, Analyst

SUBJECT: **Comprehensive Water Service Study:** Draft Determinations
Congress Valley Water District

At its April 10, 2003 meeting, the Commission received a presentation by staff providing an overview of the first phase of the *Comprehensive Water Service Study*. Following this presentation, the study was released for public review and a public workshop was conducted by the Commission at its June 12, 2003 meeting. At the conclusion of the public workshop, the Commission directed staff to proceed with the next phase of the study: the development of draft determinations. Draft determinations for the Cities of American Canyon, Calistoga, Napa, St. Helena, Town of Yountville, and Los Carneros Water District, Napa County Flood Control & Water Conservation District, and Napa Sanitation District were presented to the Commission at its August 14, 2003, October 9, 2003, and December 11, 2003 meetings.

In a continuation of this process, staff has prepared draft determinations with respect to the Congress Valley Water District. These draft determinations are included with an updated study section for the District and are presented to the Commission for its consideration pursuant to Government Code §56430. Staff is presenting these draft determinations to the Commission for a first-reading. These draft determinations will then be circulated for comment from the District and interested parties. Final determinations will be presented for adoption at the Commission's April 8, 2004 meeting.

Draft determinations for the remaining agencies included in the *Comprehensive Water Service Study* will be presented to the Commission at future meetings.

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CONGRESS VALLEY WATER DISTRICT

OVERVIEW

The Congress Valley Water District (CVWD) was established in 1949 to provide potable water service to a residential farming community in southwest Napa County known as “Congress Valley.” Originally formed as the Congress Valley – Napa County Water District, the District’s formation was sought by local landowners to facilitate an agreement with the City of Napa for the procurement of a potable water supply. Discussions between interested landowners and Napa were prompted following several consecutive years of water shortages in Congress Valley; during the 1940s, groundwater supplies proved inadequate and briddled with high levels of minerals.

In 1950, in anticipation of reaching a long-term water supply agreement with Napa, CVWD voters authorized the sale of general obligation bonds to finance the construction of a water distribution system. One year later, the District entered into a 25-year agreement with Napa for an annual allocation of potable water. The District agreed to be responsible for the design, finance, and construction of a water distribution system that would connect to Napa’s distribution system. In exchange, Napa agreed to provide up to 368 acre-feet of potable water annually and be responsible for billing and collecting water sales from District customers.

The extension of potable water service within CVWD proved growth inducing, and by the early 1970s, the District’s distribution system began experiencing pressure losses as subdivision development led to a significant increase in service connections.¹ The distribution system, which was completed in 1952, was constructed with revenue generated from the sale of general obligation bonds. The sale of these bonds was limited to \$38,000 due to the low property assessment of land located within the District. The modest revenue generated from these bonds resulted in an undersized distribution system consisting of one pump station, two to four inch water lines, and two storage tanks with a combined storage capacity of 15,000 gallons. As a result, the increase in service connections proved taxing as system demands exceeded the capacity of the District’s distribution system, leading to water outages during peak demand periods.

In 1975, to address capacity concerns, CVWD authorized an engineer’s report to evaluate its distribution system in terms of meeting existing and future system demands. The study concluded that the distribution system was unable to generate an adequate amount of pressure during peak demand periods due to friction caused by undersized water lines. The study recommended that the District not allow new service connections until improving the distribution capacity by replacing and enlarging water lines or requiring each customer to develop their own storage facility to provide adequate pressure. Following the release of the study, the District declared an emergency water shortage and adopted an ordinance restricting additional water connections. Further, the District asked

¹ In 1952, CVWD served approximately 30 service connections. By 1974, the District served approximately 61 service connections.

the Napa County Board of Supervisors to rezone territory located within its jurisdictional boundary to protect against further lot-line adjustments. This change in zoning was sought to abate further demands on the undersized delivery system. At the time of the request, the District was in the process of contemplating a new distribution system, but believed the process was undermined by uncertainties involving the potential number of parcels that may eventually reside within its jurisdictional boundary. To this end, the District successfully requested that land located within its jurisdictional boundary be rezoned to “Agricultural, Watershed and Recreation,” thereby limiting lot-line adjustments to 40-acre parcel minimums.²

Incremental improvements were made by CVWD to its distribution system following its 1975 decision to restrict new water service connections. The restrictions were lifted in 1989 after the District completed construction on a new distribution system. The new distribution system, which was financed through a grant and low-interest loan from the California Department of Water Resources, enabled the District to increase its distribution capacity by replacing undersized water lines with larger lines adequate to meet system demands. The completion of the new distribution system coincided with a new water supply agreement with Napa, which had been finalized two years earlier in 1987. This agreement provides the District with an annual allocation of 100 acre-feet of potable water through 2017, and limits service to no more than 140 service connections to parcels of legal record at the time of the agreement. Napa agrees to charge the District a water usage fee concurrent with its rate for inside-city customers while charging District customers at a rate specified by the District. This arrangement allows the District to collect a surcharge on water sales within its jurisdictional boundary.³ Napa is responsible for the complete operation and maintenance of the District’s distribution system. Notably, the agreement specifies that the District shall voluntarily dissolve and turn over all assets to Napa at the conclusion of the agreement.

GOVERNANCE

CVWD was organized under the County Water District Law, Division 12 of the California Water Code. The District’s governing board is comprised of an elected five-member board of directors serving staggered four-year terms. Elections are in accordance with the California Election Code. In addition to electing a president, the board is required to appoint a secretary and general manager to assist in the duties and operations of the district. The board is also required to appoint an auditor, treasurer or retain an independent auditor to monitor the financial condition of the district. Services

² Zoning standards for land located within CVWD’s jurisdictional boundary was subsequently amended to “Agricultural Watershed,” which limits lot-line adjustments to 160-acre parcel minimums.

³ CVWD applied a surcharge on water sales between 1987 and 1998. The District ended this practice following a recommendation by an outside consultant that it amend its rate schedule to be identical to the rate charged by Napa to its inside-city customers. (Consultant’s recommendation was prompted by a Napa County Grand Jury report highlighting the discrepancy between the two agencies’ water rates.)

can be financed through water use and standby charges, assessments, and general obligation and revenue bonds.

CVWD's board meetings are conducted on the third Monday of every month at the County of Napa's administration building and are open to the public. Board members are compensated \$100 each month for all meetings attended. Pursuant to County Water District Law (Water Code 30000 et. seq.), the District is authorized to provide the following municipal services:

- Any act necessary to furnish sufficient water in the district for any present or future beneficial use, including the storage, conservation, and operation of water works (WC §31020-31022)
- The collection, treatment, and disposal of sewage, waste, and storm water (WC §31100)
- Drain and reclaim lands within the district for any beneficial use (WC §31033)
- Provide fire protection authorized under the Fire Protection Law of 1987 (WC §31120)
- Construct, maintain, or operate works or facilities for recreational activities (WC §31130)
- Acquire, construct, or operate facilities for the collection and disposal of garbage and waste (WC §31135)
- Construct, maintain, or operate hydroelectric power plants (WC §31149.1)

CVWD provides only the first service listed above.

OPERATIONS

Operations and management of CVWD's potable water distribution system is provided by the City of Napa. Customer inquiries, including billing and service questions, are directed to Napa's Public Works Department, Water Division. Under this arrangement, Napa acts as general manager on behalf of the District. Designated city staff is on call 24 hours a day, 7 days a week to respond to reported emergencies. The District employs one part-time administrator whose responsibilities include acting as district secretary, as well as interacting on behalf of the board with local government agencies.

ADOPTED BOUNDARIES

CVWD's adopted service area is comprised of a contiguous, unincorporated area consisting of approximately 1,416 acres. The District's adopted sphere of influence encompasses nearly its entire jurisdictional boundary with the exception of two parcels located immediately outside its western and southern sphere boundary.⁴ The District is under the land use authority of the County of Napa. Land located within the District's adopted sphere of influence is designated under the County's General Plan as "Agriculture Watershed and Open Space." Zoning for this area is comprised of "Agricultural Watershed." This zoning standard requires a minimum parcel size of 160 acres.⁵

CVWD – Adopted Boundaries	
District Boundary:	1,416 acres *
Sphere of Influence Boundary:	1,182 acres *

- * Figures are approximations calculated using information generated by LAFCO and County of Napa's geographic information systems.

WATER SUPPLY

CVWD's water supply is generated from the supply of the City of Napa. Pursuant to its water supply agreement with Napa, the District is annually allocated 100 acre-feet of potable water through 2017. Napa's water supply is commingled between three sources: Lake Hennessey, Milliken Reservoir, and the State Water Project.

CVWD – Available Water Supply (acre-feet)	
City of Napa	100 acre-feet (annual allocation)

WATER DEMAND

In 2002, the City of Napa delivered approximately 16,250,000 gallons (50 acre-feet) of potable water to CVWD, resulting in a daily average of 44,521 gallons. The District's maximum day water demand is unknown. The District currently provides water service to 74 connections. Of this amount, 72 connections are residential and 2 connections are agricultural.

⁴ Both parcels were included as part of the District's original jurisdictional boundary but were excluded from its sphere of influence at the time of LAFCO's last review of the District in 1985; LAFCO concluded that it was economically infeasible for the District to provide adequate water service to both parcels due to the limitations of the prior distribution system.

⁵ District land located outside its adopted sphere of influence is also zoned Agricultural Watershed.

CVWD – 2002 Water Demand	
Annual Water Demand:	16,250,000 gallons
Average Water Demand:	44,521 gallons
Maximum Day Water Demand:	Not Available *
Service Connections:	74
Population Served:	244**

* Title 22 of the California Code of Regulations requires that sufficient water be available from the water sources and distribution reservoirs to adequately and dependably meet the requirements of all users under maximum demand conditions.

** Calculated in accordance with Title 22 of the California Code of Regulations §64412(a)(2).

WATER TREATMENT FACILITIES

CVWD does not own, lease, or operate treatment facilities. Water delivered to the District is treated by the City of Napa.

DISTRIBUTION AND STORAGE FACILITIES

CVWD's distribution system receives and delivers potable water generated from the City of Napa's distribution system. The District's system consists of eight to twelve inch water lines that are served by two connection points to Napa's water distribution system at Thompson Road and Stonebridge Drive/Sunset Road. The District is part of Napa's "Browns Valley – Zone No. 4." Water supply and pressure for this pressure zone is served by Napa's B-Tank, which has a storage capacity of 1.0 million gallons.

RATE SCHEDULE

CVWD customers are charged a bimonthly usage charge for water service. The usage charge is equal to the City of Napa's inside customer rate and is based on the volume of water delivered measured in units of 1,000 gallons. The usage charge is billed and collected by Napa. A one-time connection fee is billed and collected by the District.

CVWD – Rate Schedule	
Water Usage Fee:	\$3.23 per 1,000 gallons *
Water Connection Fee:	\$ 7,683

* Billed and collected by the City of Napa

FINANCIAL

CVWD has an approved operating budget for 2002-2003 of \$62,678.66. Primary expenses include professional services, insurance coverage, and payment on outstanding debts. The District's anticipated revenue for 2002-2003 is \$62,231. Revenue sources include property taxes, interest from its reserve balance, and water connection fees. The District's reserve balance as of July 2002 was \$490,506.

WRITTEN DETERMINATIONS

In anticipation of reviewing and updating CVWD's sphere of influence, and based on the above-mentioned information, the following written determinations are intended to fulfill the requirements of Government Code §56430. When warranted, some determinations include supplemental information listed in italics to provide context to the underlying service factor. A review of the District's sphere of influence will be included as part of a future study.

Infrastructure Needs or Deficiencies:

1. The Congress Valley Water District indirectly provides water service to its constituents through an agreement with the City of Napa. This agreement provides the District with an adequate supply of water to meet existing and future water demands under normal conditions within the timeframe of this study.
2. It is anticipated that the Congress Valley Water District's contracted supply of potable water will be proportionally reduced during periods of below normal and dry year conditions as a result of conservation measures implemented by the City of Napa. To lessen the impact to its constituents during these periods, the District should make a concerted effort to reduce system demands by promoting and developing water conservation programs in consultation with Napa.
3. The ability of the Congress Valley Water District to provide water service to its constituents is dependent on the supply, treatment, distribution, and storage facilities of the City of Napa. Any impediment or interruption in Napa's water system operations would diminish service levels and likely result in water shortages within the District.
4. The City of Napa has established an effective program for evaluating its water service operations with respect to addressing infrastructure needs or deficiencies. Napa's management of its water service operations helps to ensure adequate supply and capacity for constituents of the Congress Valley Water District and provides assurance that needed infrastructure improvements are implemented in a timely manner.

5. The Congress Valley Water District should continue to work with the City of Napa to identify and address mutually beneficial system improvements to maintain an adequate level of water service within its jurisdictional boundary.

Growth and Population Projections:

1. The Congress Valley Water District is under the land use authority of the County of Napa. Land located within the District is zoned “Agricultural Watershed.” This zoning standard helps to restrict future development within the District by requiring minimum parcels sizes of at least 160 acres.
2. There are eight parcels located within the Congress Valley Water District’s jurisdictional boundary under “Williamson Act” contracts with the County of Napa. These parcels represent approximately forty percent of the entire jurisdictional boundary and help to ensure the preservation of agriculture and open space as significant land uses within the District.

Parcels under Williamson Act contracts are required to maintain their agricultural and open space land uses over the course of renewable 10-year periods in exchange for reduced property tax assessments.

3. The Congress Valley Water District’s water supply agreement with the City of Napa, which allocates 100 acre-feet per year and authorizes the District to allow up to 140 service connections to parcels of legal record as of 1987, constrains growth while providing appropriate parameters for the District to accommodate future service demands.
4. The calculation formula codified in Title 22 of the California Code of Regulations §64412(a)(2) is an appropriate method in estimating the total population served by Congress Valley Water District’s water service system. The population served by the District’s water system based on this calculation method is 244.

Financing Constraints and Opportunities:

1. Under its agreement with the City of Napa, the Congress Valley Water District is not responsible for costs relating to the operation, maintenance, or replacement of facilities involved in the delivery of potable water within its jurisdictional boundary. This arrangement allows the District to apply its revenue sources for a variety of non-operational purposes, such as funding special studies and paying down long-term debt.
2. The Congress Valley Water District can generate additional revenue by collecting a surcharge on water sales within its jurisdictional boundary. This feature allows the District to raise additional revenue to finance unexpected costs or special projects without depleting its cash reserves or relying on outside financing.

Cost Avoidance Opportunities:

1. The Congress Valley Water District's agreement with the City of Napa eliminates costs for the District with respect to the delivery of potable water service to its constituents. Notable cost-savings associated with this agreement include providing the District with access to a wide range of administrative and operational support, including billing and collections, engineering, and maintenance personnel.
2. The decision by the Congress Valley Water District to contract for water service with the City of Napa reflects the financial constraints associated with developing its own water resources and promotes the benefits of local partnerships.

Opportunities for Rate Restructuring:

1. The Congress Valley Water District maintains its water rates at a level and structure identical to the rate and structure adopted by the City of Napa for customers located within its incorporated territory. This practice provides District constituents with a distinct economic advantage, as their rates are – on average – lower than the rates offered by the other four special districts providing potable water service in Napa County.
2. In the event the City of Napa increases its water service rates for customers located within its incorporated boundary, the Congress Valley Water District may choose to increase its rates to remain concurrent with the City. This is a fair and equitable approach to ensure that District constituents pay an equal share of increased operational costs and capital improvement projects as beneficiaries of Napa's water service operations.

Opportunities for Shared Facilities:

1. The Congress Valley Water District's agreement with the City of Napa represents a successful partnership promoting the benefits and cost-effectiveness of shared facilities and staff resources while achieving the District's objective to provide a reliable source of water for its constituents.

Government Structure Options:

1. The Congress Valley Water District is the only public agency providing water service within its jurisdictional boundary. There are two other public agencies empowered to provide water service whose jurisdictions overlap that of the District: the Napa County Flood Control and Water Conservation District and Napa County Resource Conservation District. Both of these agencies have elected not to offer water service, and have expressed no intentions of doing so in the foreseeable future.

2. The Congress Valley Water District is empowered under the County Water District Act to provide seven municipal services: water, sewer, land reclamation, fire, recreation, sanitation, and hydroelectric power. Due to its rural residential use and agricultural land use designation under the County of Napa, the District does not require a full range of municipal services. Only water for domestic and agricultural use is an appropriate and needed service within the District.
3. The Congress Valley Water District has been successful in achieving its original service objective to facilitate an agreement on behalf of its constituents with the City of Napa for the procurement of a potable water supply. The formation of the District and its subsequent management has proven to be a responsive instrument in meeting the service needs of the community by localizing costs for the direct benefit of its constituents.
4. The Congress Valley Water District currently provides water service to an unincorporated “island” parcel located at 4062 Old Sonoma Road. Since it is prohibited from extending water service to this parcel through an outside service agreement based on its agreement with the City of Napa, the District is encouraged to initiate annexation proceedings or amend its agreement with Napa to allow it to request an outsider service agreement from the Commission. Successful implementation of either action will bring the District in compliance with the Cortese-Knox-Hertzberg Reorganization Act of 2000.
5. In the event the Congress Valley Water District is dissolved, the City of Napa would be prohibited from providing new or extended water service within the District’s former jurisdiction without first obtaining the approval of the Commission pursuant to Government Code §56133. Under these circumstances, landowners within the District who have helped fund the distribution system through an allocation of their property taxes without establishing water service would not be able to receive service unless approved by the Commission.

Government Code §56133(b) authorizes the Commission to allow a public agency to provide new or extended potable water service outside its jurisdictional boundary but within its sphere of influence in anticipation of a later change of organization. Further, Government Code §56133(c) states that the Commission may allow an agency to provide new or extended potable water services outside its jurisdictional and sphere of influence boundaries only to respond to an existing or impending public health and/or safety threat.

6. Future municipal service reviews should focus on whether the scheduled dissolution of the Congress Valley Water District at the conclusion of its agreement with the City of Napa is appropriate to best meet the service needs of its constituents beyond 2017.

Evaluation of Management Efficiencies:

1. Each year, the Congress Valley Water District provides a summary of past and projected revenues and expenditures as part of its annual budget. The budget is adopted following a publicly noticed board meeting in which members of the public are allowed to comment and offer suggestions with respect to expenditures relating to District activities. In addition to enhancing the accountability of elected and appointed officials, the District's budget process provides a clear directive towards board members and staff with respect to prioritizing local resources.
2. The Congress Valley Water District has sufficient capital reserves to help finance special projects or emergency improvements to its distribution system; reserves are generated from interest on previously accumulated reserves, property taxes, and connection fees. Applying surplus revenue from these sources is a fair and equitable approach to passing capital expenditures to ratepayers without incurring or relying on loans, special assessments, or bonded indebtedness to fund unexpected or anomalous projects.
3. The Congress Valley Water District should evaluate interest among its constituents towards developing reclaimed water service within its jurisdictional boundary. The development of reclaimed water service within the District would provide an alternative water source for agriculture and landscape users while maximizing existing water resources within the community.
4. The Congress Valley Water District should develop a strategy towards managing its cash reserves in anticipation of its scheduled dissolution in 2017.

As of July 2003, the District maintained a cash reserve balance of \$511,169, while having approximately \$260,000 remaining in long-term debt obligations.

Local Accountability and Governance:

1. The Congress Valley Water District's board meetings are conducted once a month and are open to the public. Public inquiries involving water service operations can be addressed to the Board at this time. Regularly scheduled council meetings provide an opportunity for District constituents to ask questions of their elected and appointed representatives, while helping to ensure that service information is being effectively communicated to the public.

2. The Congress Valley Water District's governing body is comprised of five directors serving reappointed terms in lieu of other candidates seeking election. The lack of participation among constituents to serve on the District's governing board reflects a need for improving public outreach efforts to remind constituents of the role of the District and the importance of community involvement in its decision making process.
3. In anticipation of future board member departures, the Congress Valley Water District should begin to recruit and acquaint new board member candidates with respect to local service goals and objectives. This will help to ensure a viable pool of successor candidates, and provide an opportunity to cultivate new perspectives and approaches that may prove successful in meeting the service needs of the District
4. The Congress Valley Water District relies largely on the efforts of the City of Napa to inform its constituents regarding water service operations within its jurisdictional boundary. The District should make a concerted effort to improve its public dialogue with its constituents by better publicizing its meetings, establishing a dedicated phone line, and developing an annual newsletter. These efforts would enhance its local accountability, foster greater public participation, and help increase its visibility as the local water use authority.
5. The Congress Valley Water District is governed by a responsive and dedicated board and staff. These characteristics enhance local accountability and cultivate desirable working relationships with members of the public as well as other agencies.